STAR CABLE ASSOCIATES

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January 18, 1993

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RETURN RECEIPT REQUESTED

Donna R. Searcy, Secretary
Federal Communications Commission
1919 M Street, N.W.
Washington, D.C. 20554

RE: MM Docket 92-266
Notice of Proposed Rulemaking on Cable Television Rates
Comments of Star Cable Associates

Dear Ms. Searcy:

I have enclosed for you an original, plus nine (9) copies of the comments of Star Cable Associates to the Commission's above-referenced Notice of Proposed Rulemaking. I would kindly ask that you forward a copy to each Commissioner.

Thank you for your assistance.

Very truly yours,

STAR CABLE ASSOCIATES

By: Matthew M. Polka
Matthew M. Polka
Vice President and
General Counsel

MMP/vas
Enclosures

cc: James C. Roddey
Richard W. Talarico
Michael R. Haislip
Daniel G. Skantar
Karen D'Angelo Yochum

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BEFORE THE
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of:	)	
	)	
Implementation of Sections of the Cable Television Consumer Protection and Competition Act of 1992	)	MM Docket No. 92-266
	)	
Rate Regulation	)	

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FEDERAL COMMUNICATIONS COMMISSION
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COMMENTS OF STAR CABLE ASSOCIATES

Comes now Star Cable Associates, a Pennsylvania general partnership, which owns and operates cable television systems in the states of Louisiana, Mississippi, North Carolina, Ohio, Pennsylvania, South Carolina, Texas and Virginia, and hereby provides comments in the above-captioned proceeding, as follows:

On December 12, 1992, the New York Times reported a Federal Communications Commission ("FCC") proposal concerning regulating cable television prices.

According to the Times, "the Commission tentatively rejected any attempt to analyze the cost structure of a cable company and then establish a particular level of profit."

The article continued that although regulatory commissions usually establish rates based on some profit level or return on investment, officials of the FCC said, "that approach would prove hard to administer."

"Instead," according to the Times article, "the commission proposed pegging prices to some sort of general standard. Perhaps the most likely option would be to match prices with those charged in the handful of cities where cable systems compete head-to-head."

This proposal marks the opening round in the complicated task of putting into effect the new cable television law passed by Congress in October 1992.

FOR COMPANIES THAT OPERATE CABLE SYSTEMS IN LOW-DENSITY RURAL MARKETS, LIKE STAR CABLE, THE FCC POSITION IS VERY DISTURBING. Rural cable not only can be characterized by mostly small companies with multiple head-ends, but also by low-density systems (fewer than 30 homes per mile compared to more than triple that number in most urban systems). Often rural cable head-ends average fewer than 1,000 subscribers.

All of these elements combine to create significantly higher operating costs for rural operators:

(1) Few Homes Per Mile: It costs about the same to construct a mile of cable in a low-density rural market as it does in a high-density urban market. The higher number of homes obviously gives the urban operator a greater opportunity for a return on investment. It is not unusual for a rural system to construct and maintain as much as 1,000 miles of cable to service the same number of subscribers as a 250-mile urban system.

(2) Multiple Head-ends with 1,000 or Fewer Subscribers: This is really a triple disadvantage. First, it creates high maintenance and capital cost per subscriber. Second, the small operator is denied the benefit of advertising revenues, because most advertisers require at least 10,000 subscribers per head-end. (Advertising has been the fastest growing segment of cable income for the past three years.) The third disadvantage is the high cost (per subscriber) of adding additional service or channels. A typical rural cable operator will incur the same cost to launch a new channel in one system as will be incurred by an urban cable multiple-system operator ("MSO") in six-to-10 major markets, because the number of head-ends for one rural system equals the number in six-to-10 major markets.

(3) Size: Most rural companies, even if they are MSO's, have fewer than 100,000 total subscribers. This places them at the bottom of the chain for favorable programming fees and relative bargaining power and leverage in contract negotiations. Small companies can pay as much as double the amount paid by the biggest MSO's. Programming costs are usually at least 35% or more of a cable company's expenses.

(4) Cost and Availability of Financing: Lending institutions have been hesitant to make loans for construction of rural cable systems. When financing is available, it usually carries an interest rate higher than the rates charged on loans to large, urban MSO's.

IT IS VERY INTERESTING TO NOTE THAT SIGNIFICANT CONSTRUCTION OF CABLE TELEVISION SYSTEMS IN RURAL AREAS DID NOT OCCUR UNTIL THE CABLE INDUSTRY WAS DEREGULATED. NOW, THE FEDERAL GOVERNMENT IS IMPOSING THE VERY KIND OF REGULATIONS THAT, HAD THEY BEEN APPLIED EARLIER, WOULD PROBABLY HAVE PREVENTED THE CREATION OF MOST RURAL CABLE SYSTEMS.

MOST AMERICANS WHO LIVE IN RURAL COMMUNITIES WOULD NOT HAVE ANY CABLE TELEVISION IF SMALL RURAL OPERATORS WERE NOT WILLING TO ACCEPT MUCH LOWER PROFIT MARGINS (THAN INDUSTRY AVERAGES) AND MUCH LONGER TIME PERIODS FOR RECOVERY OF THEIR INVESTMENTS.

The FCC's idea to choose rate models from among competitive markets makes no sense whatsoever for rural companies, because there are no competitive systems with less than 35 homes per mile and none are likely to be constructed in the future.

The impending rejection of a return-on-investment ("ROI") basis for setting basic cable rates suggests that the FCC doesn't feel it is appropriate to take into account the individual operating circumstances of each cable system in the country. This would be a daunting task under any circumstances, but especially so because certain factors are controllable and should, therefore, be "normalized" or eliminated from the analysis.

Some operators are more efficient than others, and inefficient operators should not be rewarded with higher rates.

However, probably the most important consideration in cable system economics is not subject to these operating differences and could be fairly easily factored into a rate-setting process. System density is an initial investment consideration not subject even to variances in construction costs or basic penetration, which can be influenced by operating decisions. It is the most basic factor that drives system economics.

AFTER ENCOURAGING LOW-DENSITY CONSTRUCTION THROUGH THE DEREGULATION OF RATES IN THE 1984 CABLE ACT, IT IS UNCONSCIONABLE THAT THE GOVERNMENT WOULD NOW CONSIDER DESTROYING THEIR ECONOMIC FOUNDATION OF RURAL CABLE BY OVERSIMPLIFYING RATE REGULATION AS AN "ADMINISTRATIVE CONVENIENCE." MANY OF THESE AREAS WOULD NOT HAVE CABLE TODAY IF NOT FOR THE 1984 CABLE ACT AND AGGRESSIVE RURAL BUILDERS.

By their very nature these low-density, rural systems also have small head-ends (less than 5,000 customers) due to amplifier cascade limitations. Low density and small head-end size add up to a double economic burden. Should these areas have been denied cable because of these factors? Should companies now be punished for having brought cable to these areas? Should the quality of service to rural customers be sacrificed?

Bringing cable to rural areas was a worthwhile undertaking that deserves consideration in the rate-making process. In the interest of keeping this simple, we would suggest developing a generic "benchmark rate" for a typical cable system.

Comments of Star Cable Associates
MM Docket 92-266
January 18, 1993

FOR LOW-DENSITY HEAD-ENDS WITH FEWER THAN 5,000 CUSTOMERS, APPLY A DENSITY FACTOR TO THE "BENCHMARK RATE." These factors could be fairly easily determined using generic system models at densities of 20 and 30 homes per mile versus the national average of 72 homes per mile.

While the need to keep the rate-setting process simple is readily apparent, a certain level of sophisticated analysis is necessary to alleviate obvious shortcomings and give the process credibility. Any process that doesn't factor in system size and density will not meet these threshold criteria.

Let us keep in mind the following adage: "The most unfair treatment of all is the equal treatment of unequals."

Respectfully submitted,

STAR CABLE ASSOCIATES

DATED: January 18, 1993

By: James C. Roddey
James C. Roddey
President and CEO